

Message Text

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SUBJECT: BENDIX SPARK PLUG NEGOTIATIONS

REF: MOSCOW 13674

1. SUMMARY: BENDIX OFFICIALS JACOBSON AND LAROUNIS (REFTEL) TOLD
AMBASSADOR SEPTEMBER 1 THAT SOVIETS HAVE SHOWN STRONG INTEREST IN PRO-

POSED BENDIX SPARK PLUG PROPOSAL. IN THREE DAYS OF INTENSIVE NEGOTIATIONS SOVIET TRADE OFFICIALS APPEARED TO WELCOME IDEA OF CLOSE BENDIX INVOLVEMENT IN PRODUCTION ALTHOUGH THEY WERE INSISTENT THAT BENDIX PERSONNEL BE TERMED "ADVISORS" RATHER THAN "MANAGERS". SOVIETS HAVE ASKED BENDIX TO PROVIDE CREDIT FOR ENTIRE HARD CURRENCY CONSTRUCTION COSTS (AND EVEN ARRANGE FOR PURCHASE OF EQUIPMENT) AND WANT TO TIE REPAYMENT TO HARD CURRENCY SALES OF SPARK PLUGS. SOVIET ALSO REFUSE TO GO OVER 7 1/2 PERCENT INTEREST CHARGE, WHEREAS BENDIX WOULD PREFER TO LEAVE RATE FLEXIBLE AND KEYED TO ITS OWN COSTS IN RAISING MONEY. JACOBSON INDICATED THERE IS SOME GIVE IN BENDIX TERMS.

BENDIX WILL PROVIDE EARLY RESPONSE TO SOVIETS ON FINANCING, WITH RESUMPTION OF NEGOTIATIONS POSSIBLE IN OCTOBER IF THESE TERMS ARE AGREEABLE TO USSR. AMBASSADOR CAUTIONED ABOUT NEED TO MAKE CONDITIONS OF CONTRACT SPECIFIC, PARTICULARLY WHERE RESPONSIBILITY FOR QUALITY OF PRODUCT IS CONCERNED. END SUMMARY.

2. JACOBSON SAID HE NEGOTIATED INTENSIVELY WITH DEPUTY MINISTER OF FOREIGN GRADE VLADIMIR SUSHKOV, DEPUTY MINISTER OF THE AUTOMOTIVE INDUSTRY YEVGENIY BASHINDZHAGYAN AND ANATOLIY BUTKO (REF-
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TEL), ALL OF WHOM MADE IT VERY CLEAR THAT SOVIETS WANT THE

PROJECT. SUSHKOV STATED THAT ONLY USA/CANADA INSTITUTE DIRECTOR ARBATOV FAVORED THE DEAL TWO YEARS AGO, WHEREAS NOW NO ONE IS OPPOSED TO IT. THERE WERE TWO PRIMARY AREAS WHERE THERE IS STILL DISAGREEMENT:

A) BENDIX MANAGEMENT. THIS CAUSED DIFFICULTIES FOR THE USSR, BUT NOT SO MUCH AS HAD BEEN ANTICIPATED. THE SOVIETS RECOGNIZE THE NEED FOR BETTER QUALITY SPARK PLUGS AND ARE, IN FACT, ANXIOUS TO HAVE BENDIX ATTEST THE QUALITY TO BE PRODUCED. BENDIX COULD SELECT FOREIGN (NON-CEMA) SUPPLIERS AND EVEN MAKE PURCHASING ARRANGEMENTS. IT COULD INSIST ON THE QUALITY OF SOVIET AND EAST EUROPEAN PRODUCTION OF THE PART OF THE FACTORY TO BE SUPPLIED FOR RUBLES. ITS PERSONNEL, HOWEVER, WOULD HAVE TO BE CALLED "ADVISORS", NOT MANAGERS. ACCORDING TO JACOBSON, NOMENCLATURE OF PERSONNEL GIVES BENDIX NO PROBLEM AS LONG AS BENDIX IS INVOLVED IN MANAGEMENT AND RETAINS THE RIGHT TO DECIDE WHETHER QUALITY IS SUFFICIENT FOR THE "AUTO-LITE" TRADE-MARK. HE THOUGHT THE SOVIETS WANT THE AGREEMENT IN ORDER TO BE ABLE TO BOAST OF A "CO-PRODUCTION" ARRANGEMENT WITH A PROMINENT U.S. FIRM - IT GIVES THE SOVIET PRODUCT A BENEDICTION. SOVIETS WANT TO BE ABLE TO CLAIM THEY ENJOY CONFIDENCE OF MAJOR WESTERN PRODUCERS - IN THIS CONNECTION, HE THOUGHT DEPUTY MINISTER BASHINDZHAGYAN APPEARED RATHER DEFENSIVE IN BOASTING THAT THE SOVIETS HAD GOOD RELATIONS WITH FIAT AND SWINDLER-DRESSLER. BENDIX OFFICIALS EXPRESSED SOME CONCERN THAT THEIR RESPONSIBILITIES FOR PRODUCT SELECTION IN CONSTRUCTION OF THE PLANT MIGHT PRECLUDE THEIR LATER DISCLAIMING RESPONSIBILITY IF FINAL PRODUCT IS NOT UP TO NECESSARY QUALITY. AMBASSADOR CAUTIONED THAT THE CONTRACT MUST BE CAREFULLY WRITTEN TO AVOID SUCH A RESULT.

B) FINANCIAL. THE SOVIETS WANT 100 PERCENT OF HARD CURRENCY ORIGIN COMPONENTS TO BE SUPPLIED ON CREDIT FROM BENDIX, WITH REPAYMENT AT INTEREST NO HIGHER THAN 7 1/2 PERCENT AND KEYED TO EVENTUAL EXPORTS OF SPARK PLUGS TO HARD CURRENCY MARKETS. SOVIETS MADE INTEREST RATE A MATTER OF PRINCIPLE, AND THE BENDIX OFFICIALS FELT THEY WERE IN EARNEST. JACOBSON AGREED TO REVIEW THE SHARE OF THE HARD CURRENCY COSTS FOR WHICH BENDIX WOULD SUPPLY CREDIT. HE SAID HE HAD MENTIONED A 10 PERCENT INTEREST CHARGE TO THE RUSSIANS AND HAD INDICATED RATE WOULD BE TIED LIMITED OFFICIAL USE

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TO U.S. AVERAGE WHICH BENDIX HAD TO PAY TO RAISE THE MONEY. THIS IS CURRENTLY ABOUT 8 5/8 PERCENT. (TO THE AMBASSADOR'S INQUIRY IF A LOWER INTEREST RATE COULD NOT BE COMPENSATED BY BENDIX BY SETTING A HIGHER PRODUCT CHARGE, JACOBSON GAVE READY ASSENT.) HE THOUGHT BENDIX WOULD BE WILLING TO SETTLE FOR A FIXED (NOT FLOATING) RATE. JACOBSON SAID THAT BENDIX STILL WANTED TO KEEP REPAYMENT SEPARATE FROM EXPORT SALES, BUT HE SAID THERE WOULD BE SOME "FLEXIBILITY" IF EXPORTS WERE SLOW

TO DEVELOP.

3. SUSHKOV ALSO TOLD JACOBSON THAT BENDIX MONEY WOULD HAVE TO COME FIRST, BEFORE A RUSSIAN FINANCIAL COMMITMENT, IN ORDER TO EXPEDITE THE PROJECT. IF SUCH IS FORTHCOMING, HE WOULD NOT HAVE TO GO TO THE MINISTRY OF FINANCE FOR APPROVAL. JACOBSON THOUGHT THAT THIS INTERNAL SOVIET PROJECT-APPROVAL PROCEDURE STRENGTHENED THE NEGOTIATING POSITION OF BENDIX.

4. JACOBSON SAID THAT HE WILL RETURN TO U.S. SEPTEMBER 3 TO LAY RESULTS OF HIS DISCUSSIONS BEFORE BENDIX PRESIDENT BLUMENTHAL, WHO WILL HAVE TO MAKE THE DECISION. BENDIX HAD NO INTEREST IN DELAY AND HOPED TO PROVIDE VIEWS ON FINANCING ASPECT IN A COUPLE OF WEEKS. IF TERMS MEET SOVIET NEEDS, HE THOUGHT HE MIGHT BE ASKED TO RETURN TO MOSCOW IN MID-OCTOBER. THREE TO SIX MONTHS OF HIGHLY DETAILED NEGOTIATIONS MIGHT THEN FOLLOW. IF THE PLANT IS BUILT, HE THOUGHT THAT THE SOVIETS INTEND IT FOR THE CITY OF OKTYABRSKIY.

5. JACOBSON ASKED IF USG FAVORED COMMERCIAL ARRANGEMENTS WITH SOVIET UNION SUCH AS THIS ONE. AMBASSADOR RESPONDED THAT WE STRONGLY FAVOR THEM AND REGARD PEACEFUL TRADE IN NON-STRATEGIC COMMODITIES AS VERY MUCH IN OUR INTEREST.

6. COMMENT: WHEREAS JACOBSON TOLD THE AMBASSADOR ON AUGUST 30 THAT BENDIX TERMS WERE TAKE-IT OR LEAVE-IT, HE APPEARS TO HAVE MOVED TOWARDS GREATER FLEXIBILITY, PARTICULARLY ON THE FINANCIAL ASPECT WHERE THE SOVIETS ARE DETERMINED NOT TO GO ABOVE 7 1/2 PERCENT ON THE INTEREST RATE AND WANT TO TIE THEIR HARD CURRENCY REPAYMENT OBLIGATIONS TO FUTURE EARNINGS. SINCE PRIMARY BENDIX GOAL IS SAID TO BE PENETRATION OF SOVIET EE INTERNAL MARKET (REFTEL), BLUMENTHAL MAY BE MALLEABLE ON FINANCING OF EXPORTS TO HARD CURRENCY AREAS. LIMITED OFFICIAL USE

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THERE ARE OBVIOUSLY MANY PITFALLS IN TRYING TO CO-MANAGE THE CONSTRUCTION OF A SOVIET ENTERPRISE WITHOUT INCURRING AN OBLIGATION TO CERTIFY THE QUALITY OF ITS OUTPUT. STOESSEL

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